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Approved For Release 2006/02/07 : CIA-RDP80B01554R003400080007-4

22 November 1978

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MEMORANDUM FOR: [redacted]

FROM: Director of Central Intelligence

SUBJECT: Project on Soviet Defense Budget

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1. [redacted] has a project about the Soviet defense budget he would like to have us check. Basically, his thesis is that until about 1965 the Soviet defense budget was steady with adjustments only for inflation, but from there on it was not only adjusted for inflation but the rate of growth of GNP of the Soviet Union. He thinks this can explain the phenomenon we have been uncovering recently of the growth in the Soviet budget and that perhaps we can identify when, by whom, and how the decision was made to give it this additional emphasis.

2. I told him I'd ask you to work with him to get the argument he has developed so that we can try it on the military economists. You may want to either turn it over to [redacted] or take him with you on the assumption that [redacted] I think [redacted] wanted to make sure that whoever is the intermediary here really does understand the question. He may well have that confidence [redacted] as well as yourself.

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STANSFIELD TURNER

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INSIDE SPECIAL REPORT

BY PAUL GRABOWICZ & JOEL KOTKIN

THE CIA PUTS ITS MONEY WHERE ITS FRIENDS ARE

Schroders Limited, an obscure but powerful Anglo-American merchant banking firm, served for years as one of the depositories of a secret Central Intelligence Agency fund for covert operations, a former high-ranking CIA official has told THE INSIDER. The one-time top agent said Schroders—which has major offices in New York and London—was one of the main guardians of the estimated \$50 million CIA director's contingency fund.

Schroders's relationship with the CIA first came to light last year during the espionage trial of former Agency employee Edwin G. Moore. Although virtually ignored by the press at the time, Moore revealed that in 1967 he received some \$38,000 in back pay from a check drawn on a Schroder Trust Company account in New York after the then CIA Director Richard Helms had authorized his rehiring.

Moore's attorney, Skip Townsend, told us that his efforts to get the Agency to discuss the Schroder check ran into a solid wall of secrecy. "When we started asking about it, they clamped a lid down on it," Townsend recalled. "They determined [that] on this one issue, they would not put anyone on the stand."

While the Moore check provides the first tangible proof of a Schroders-CIA link, further investigation has uncovered a long and interlocking relationship between the investment bank and American intelligence officials, extending from the early days of the Cold War to the Carter Administration.

In 1937, Schroders chose Allen Dulles, a member of its prestigious New

York law firm, Sullivan and Cromwell, to sit on the bank's board of directors. Dulles went on to serve in the wartime OSS and later became deputy director and then director of the CIA. Even though Dulles severed his connection to Schroders in 1943, other Sullivan and Cromwell partners have continued to serve on Schroders's board of directors.

After the war, another top American intelligence official, Robert Patterson, joined the Schroders board. Patterson, a former Secretary of War, was a member of the National Intelligence Authority, which laid the groundwork for the nation's first large-scale intelligence effort. Meanwhile, Schroders was also developing links with the already entrenched spy community in England.

Schroders continued to share common interests with the American intelligence community during the 1950s. Throughout that period, the Dulles brothers—CIA director Allen and Secretary of State John Foster—arranged for numerous

coups throughout the Third World as part of their international anti-Communist crusade. In several of the affected nations, the bank or its officers were deeply involved in local businesses that benefited directly from CIA-initiated actions.

A prime example of this CIA-Schroders coincidence of interest was the Agency-directed 1954 coup in Guatemala, which overthrew the communist-leaning régime of Jacobo Arbenz. One of the chief beneficiaries of the coup was International Railways of Central America—the country's major rail line—on whose board of directors sat two Schroders directors, including Gerald F. Beal, the railroad's chairman and president of Schroders in New York. The bank itself was further involved in handling bonds and debentures for the company.

International Railways bitterly opposed Arbenz, who had denounced the companies' exorbitant rates and actually seized control of the rail line during an October 1953 railway workers strike. Another strong Arbenz opponent was the United Fruit Company, which had formerly retained Sullivan and Cromwell partner John Foster Dulles as its legal counsel. Shortly before the coup, Guatemalan anti-communist leader Miguel Ydígoras Fuentes recalls being visited by CIA operatives, who offered him Agency support in exchange

for promises to "favor the United Fruit Company and the International Railways of Central America," and to "destroy the railroad workers labor union." Fuentes maintains that he rejected these conditions as "unacceptable," but that didn't prevent Allen Dulles from using the CIA to initiate and finance the coup which ultimately toppled Arbenz.

Guatemala, however, is just one short thread in the world-wide meshing of CIA and Schroders interests. In 1953, the CIA sponsored a coup in Iran against the reformist régime of Premier Mohammed Mossadegh, which was attempting to nationalize the holdings of the Anglo-Iranian Oil Company. A top Schroders executive had been on the board of the Iranian oil firm for 30 years prior to the coup, and Schroders Limited Chairman, Michael J. Verey, today sits on the board of directors of British Petroleum, Anglo-Iranian Oil's successor and one of the western companies enjoying the more amicable oil policies of the Shah.

But perhaps the most flagrant overlapping of Schroders and CIA interests came in 1961, with the abortive Bay of Pigs invasion of Cuba. Masterminded by CIA Director Dulles, the invasion was aimed at toppling the newly established régime of Fidel Castro, which was bitterly opposed by U.S. and Cuban sugar interests. Schroders President Beal and Director George A. Braga were both on the board of directors of Francisco Sugar, whose 158,000 acres were confiscated by Castro in the period just prior to the invasion. Francisco Sugar, moreover, was yet another client of the ubiquitous Sullivan and Cromwell law firm.

Schroders Director Braga and his family were also involved in at least two other sugar companies with well over 200,000 acres confiscated by Castro. These men were so incensed by the new Cuban régime and so confident it could be toppled that Francisco Sugar President B.



Allen and John Foster Dulles: Taking care of business

CONTINUED

THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

21 November 1978

STAT
The Honorable John A. McCone

[Redacted]
Dear John:

Thanks for keeping me posted on your helpful exchange with Senator Cranston. I'd like to comment on a number of the points you raised in your letter of 26 October with respect to the Senator's views.

First, there is the assertion that under the Hughes-Ryan Amendment we notify only the intelligence committees in advance of a covert operation and the other six committees ex post facto. This is not quite accurate. Under the Hughes-Ryan Amendment, we are only required to notify the appropriate Congressional committees "in a timely fashion." It is our position in the Executive Branch that this does not require prior notification or prior approval. At the same time, we do not stand on ceremony and deliberately wait until a covert action has been undertaken or completed prior to notifying the committees. In point of fact, more often than not it will be possible to give notification before an action is undertaken and we will do so. There is no instance since I have been here in which we have not been able to provide notification prior to commencement of a covert action. We treat all committees on the same basis, however. Whenever we make notification, we do so to the appropriate committees as promptly as possible. By this I mean we notify the staff of that committee that we have available the details of a new covert action whenever they are ready to hear us. Different committees respond differently. Generally, the intelligence committees are the most prompt in asking to have us make our presentation. In sum, all committees are notified promptly but generally the intelligence committees delve into the details of these matters in a more timely manner. This is a matter of committee choice, not ours.

You also indicate that Senator Cranston believes that we have reduced the number of covert actions by conviction that they are not as useful today, not because of fear of exposure. There is a great deal of truth in this, but to attribute the reduction of covert actions entirely to a lesser applicability is considerably to overstate the case. There are frequent instances in which an incipient covert action proposal is dropped simply because we feel that the odds of keeping it quiet are too slim to warrant the risks that would be involved. I do believe that we have fewer opportunities for covert action today, but when they do come forward the most common cause for not proceeding is the risk of leaks.

I would not deny the Senator's thesis that a great many leaks of security information have come from former CIA employees. I am happy that we are taking his advice in instituting proceedings against those whom we can. As you know, we've won a case against Mr. Frank Snepp and are now hoping that the appellate court will uphold that judgment. At this time, it would appear premature to go ahead with any other similar actions until we are sure this ruling will hold up. I can certainly assure you that I will urge the Attorney General to act in every such case in which there is adequate evidence. We are, however, unable to act in some instances for one or more of several reasons. To begin with, it may be necessary to disclose more secret information than we can afford in order to prosecute criminal actions. We need some legislative relief to allow us to obtain protective orders or other means of preventing full public disclosure of our sensitive information while at the same time protecting the rights of the accused to a full defense. A second problem that we have is with people like Philip Agee who work from abroad. To this date, we have been unable to find an adequate legislative control under which to grapple with his case.

Finally, I would like to be of help to you in commenting to Senator Cranston but the Administration position regarding S. 2525 is being developed currently with the Senate Select Committee on Intelligence and may represent such a substantial departure from the bill as introduced that it would not be worth your time to wade through that voluminous document in

order to arrive at your assessment. It is my understanding that the Committee intends to reintroduce what will essentially be a new version of the bill in the next Congress. I believe it is possible that a very satisfactory proposal, both definitively authorizing and regulating intelligence activities, may be the end result of our close and extensive work with the Committee on this important legislation.

It is my understanding that Agency comments concerning S. 2525 previously have been supplied to you by Walt Elder. I'll ask Walt to keep you posted when the new draft legislation is issued.

It certainly was wonderful to see you here in Washington and to exchange ideas. I look forward to the next opportunity. With warmest regards.

Yours,



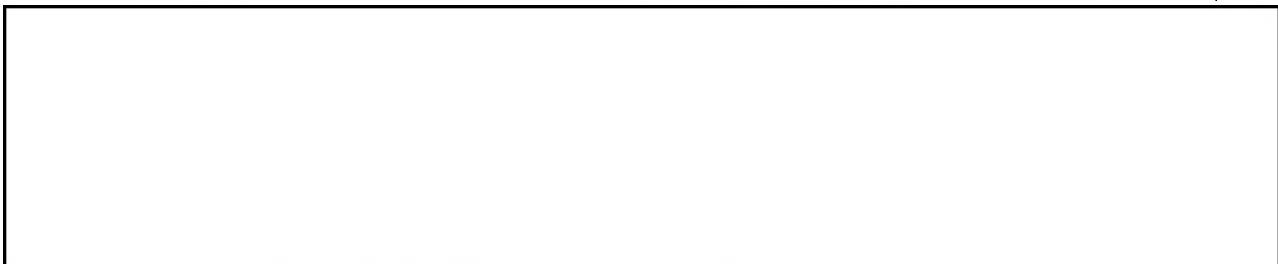
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MEMORANDUM FOR: Deputy Director for National Foreign Assessment
FROM: Director of Central Intelligence



2. I mentioned previously Secretary Vance is interested in our evaluation of Pakistan. I'd like to look again at whether that regime is in a precarious situation.

3. Finally, I think we ought to take a look at the Middle East as a region. What are the dangers we face there if things do not go our way with respect to an Israeli/Egyptian peace; with respect to the continuity of a friendly government in Iran? In short, we tend to look at the individual countries and situations; perhaps we should do something to mesh together the whole picture as best we can.

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